

2011 Explanatory Notes  
Grain Inspection, Packers and Stockyards Administration

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## GRAIN INSPECTION, PACKERS AND STOCKYARDS ADMINISTRATION

## Purpose Statement

The Grain Inspection, Packers and Stockyards Administration (GIPSA) was established October 20, 1994, under the authority of the Agriculture Reorganization Act of 1994 (P.L. 103-354), to administer the programs and functions of the former Federal Grain Inspection Service (FGIS) and the Packers and Stockyards Administration (PSA). The mission of the agency is to facilitate the marketing of livestock, poultry, meat, cereals, oilseeds, and related agricultural products, and to promote fair and competitive trading practices for the overall benefit of consumers and American agriculture. GIPSA is composed of three major activities: (1) Grain Regulatory Program, (2) Grain Inspection and Weighing Services, and (3) Packers and Stockyards Program.

GIPSA's Grain Regulatory Program, which is carried out under the authority of the United States Grain Standards Act, as amended (USGSA), and the Agricultural Marketing Act of 1946 (AMA), is currently funded by appropriations. As part of the Grain Regulatory Program, GIPSA promotes and enforces the accurate and uniform application of the USGSA and applicable provisions of the AMA; identifies, evaluates, and implements new or improved techniques for measuring grain quality; and establishes and maintains testing and grading standards to facilitate the marketing of U.S. grain, oilseeds, and related products.

Grain Inspection and Weighing Services are authorized under both the USGSA and the AMA. The USGSA requires the mandatory inspection and weighing of grain at export ports by GIPSA or delegated State agency personnel, and the permissive inspection and weighing of grain at domestic locations by designated State and private agency personnel. The USGSA also requires GIPSA to supervise all official inspection and weighing activities. On a request basis, GIPSA performs inspection of rice and related commodities under the AMA. Both statutes require GIPSA to collect user fees to fund the costs of operations including the supervision and administration of Federal grain inspection and weighing activities.

Packers and Stockyards Program activities are authorized by the Packers and Stockyards Act of 1921 (P&S Act), as amended, and Section 1324 of the Food Security Act of 1985. These activities are currently funded through appropriations. GIPSA's Packers and Stockyards Program (P&SP) is responsible for administering the P&S Act, which prohibits unfair, deceptive, and fraudulent practices by market agencies, dealers, packers, swine contractors, and live poultry dealers in the livestock, poultry, and meatpacking industries. The P&S Act makes it unlawful for a regulated entity to engage in unfair, unjustly discriminatory, or deceptive practices. Packers, live poultry dealers, and swine contractors are also prohibited from engaging in specific anti-competitive practices. P&SP conducts two broad types of activities—regulatory and investigative—in its administration and enforcement of the P&S Act. P&SP activities cover two general areas: Business Practices and Financial Protection. Business Practices are further divided into Competition and Trade Practices.

GIPSA headquarters is located in Washington, D.C. GIPSA's grain-related field activities are located in 7 field offices, 1 Federal/State office, and 4 suboffices. P&SP field activities are located in 3 field offices and 52 resident agent positions across the nation. As of September 30, 2009, employment totaled 647 full-time permanent employees, including 170 located in the headquarters office and 477 employees assigned to field locations.

The USDA Office of Inspector General (OIG) released its audit report, "Followup Audit of the Management and Oversight of the Packers and Stockyards Program," Report No. 30016-0002-Hy on June 29, 2009. Overall, OIG found that GIPSA's oversight of P&SP has improved since the 2006 audit and the Agency has a good working relationship with the Office of the General Council. OIG accepted and included in its final report all of GIPSA's planned actions in response to OIG's recommendations.

## GRAIN INSPECTION, PACKERS AND STOCKYARDS ADMINISTRATION

Available Funds and Staff-Years  
2009 Actual and Estimated 2010 and 2011

Item	Actual 2009		Estimated 2010		Estimated 2011	
	Amount	Staff Years	Amount	Staff Years	Amount	Staff Years
Salaries and Expenses.....	\$40,342,000	266	\$41,964,000	273	\$44,192,000	289
Unobligated Balance.....	-263,674	--	--	--		
Total, Salaries and Expenses.....	40,078,326	266	41,964,000	273	44,192,000	289
<u>Obligations under other</u>						
<u>USDA Appropriations:</u>						
Agricultural Marketing Service for Pesticide Data Program.....	500,968	3	287,984	2	287,984	2
Farm Service Agency for Commodity Credit Corp.....	257,229	1	500,000	2	500,000	2
Misc, reimbursements.....	73,218	1	49,560	1	49,560	1
Total, Other USDA Appropriations.....	831,415	5	837,544	5	837,544	5
Total, Agriculture Appropriations.....	40,909,741	271	42,801,544	278	45,029,544	294
<u>None-Federal Funds:</u>						
Inspection and Weighing.....	41,728,561	411	42,463,000	411	45,041,000	411
Total, Grain Inspection, Packers and Stockyards Administration.....	82,638,302	682	85,264,544	689	90,070,544	705

## GRAIN INSPECTION, PACKERS AND STOCKYARDS ADMINISTRATION

Permanent Positions by Grade and Staff Year Summary2009 Actual and Estimated 2010 and 2011

Grade	2009			2010			2011		
	Wash DC	Field	Total	Wash DC	Field	Total	Wash DC	Field	Total
Senior Executive									
Service	4	1	5	3	1	4	3	1	4
GS-15	8	5	13	8	5	13	8	5	13
GS-14	17	10	27	17	10	27	17	10	27
GS-13	40	25	65	42	26	68	42	26	68
GS-12	31	63	94	31	65	96	31	81	112
GS-11	20	68	88	23	68	91	23	68	91
GS-10	2	6	8	2	6	8	2	6	8
GS-9	19	134	153	19	134	153	19	134	153
GS-8	6	9	15	6	9	15	6	9	15
GS-7	13	71	84	13	71	84	13	71	84
GS-6	3	29	32	3	29	32	3	29	32
GS-5	4	37	41	4	37	41	4	37	41
GS-4	--	18	18	--	18	18	--	18	18
GS-3	1	--	1	1	--	1	1	--	1
GS-2	--	--	0	--	--	0	--	--	0
Ungraded Positions	2	1	3	2	1	3	2	1	3
Total Permanent Positions.....	170	477	647	174	480	654	174	496	670
Unfilled Positions End-of-year.....	0	0	0	0	0	0	0	0	0
Total, Permanent Full-Time Employment, End-of-year.....	170	477	647	174	480	654	174	496	670
Staff Year Estimate	179	503	682	183	506	689	183	522	705

## GRAIN INSPECTION, PACKERS AND STOCKYARDS ADMINISTRATION

## SIZE, COMPOSITION AND COST OF MOTOR VEHICLE FLEET

The passenger motor vehicles of the Grain Inspection, Packers and Stockyards Administration are mainly used by professional resident agents, auditors, marketing specialists, economists and managers to conduct competition, financial and trade practice compliance and investigative activities. These activities are located in rural areas and a high degree of mobility is required. The use of common carriers is seldom feasible. Comparative studies of cost requirements involved in the use of private and Government vehicles have shown that it is more economical to make Government vehicles available than to make reimbursements for the use of private cars. Leased vehicles are replaced based on the General Services Administration (GSA) age and mileage requirements.

GIPSA pools the use of motor vehicles for different activities in order to keep the number of vehicles to a minimum and reduce overall costs of maintenance. Additions to the fleet are due to additional resident agent positions which will require the use of motor vehicles. Another change to the fleet is the transition to agency-owned vehicles from leased vehicles from GSA. These replacements are due to a cost analysis which showed that owning vehicles would be more cost effective than leasing vehicles. GIPSA intends to acquire owned vehicles and replace leased vehicles on a one-to-one basis but there is generally a lag time between the acquisition of vehicles and expiration of leases. The cost savings from making a shift towards owned vehicles is reflected in the estimated per vehicle operating cost decrease in FY 2010 and FY 2011.

**Size, Composition, and Annual Cost  
(in thousands of dollars)**

Fiscal Year	Number of Vehicles by Type							Total Vehicles	Annual Operating Cost (\$ in thous)
	Sedans and Station Wagons	Light Trucks		Medium Trucks	Heavy Trucks	Ambulances	Buses		
		4X2	4X4						
FY 2008	38	23	4	--	--	--	--	65	\$324
Change	33	33	-1	--	--	--	--	65	132
FY 2009	71	56	3	--	--	--	--	130	\$456
Change	-14	3	2	--	--	--	--	-9	-95
FY2010 est.	57	59	5	--	--	--	--	121	\$361
Change	-2	20	-1	--	--	--	--	17	-1
FY2011 est.	55	79	4	--	--	--	--	138	\$360

GRAIN INSPECTION, PACKERS AND STOCKYARDS ADMINISTRATION

The estimates include appropriation language for this item as follows:

Salaries and Expenses

For necessary expenses of the Grain Inspection, Packers and Stockyards Administration, [\$41,964,000] ~~\$44,192,000~~: Provided, That this appropriation shall be available pursuant to law (7 U.S.C. 2250) for the alteration and repair of buildings and improvements, but the cost of altering any one building during the fiscal year shall not exceed 10 percent of the current replacement value of the building.

## GRAIN INSPECTION, PACKERS AND STOCKYARDS ADMINISTRATION

SALARIES AND EXPENSES - CURRENT LAW

Appropriations Act, 2010.....	\$41,964,000
Budget Estimate, 2011.....	<u>44,192,000</u>
Increase in Appropriation.....	<u><u>2,228,000</u></u>

SUMMARY OF INCREASES AND DECREASES – CURRENT LAW

(On basis of appropriation)

<u>Item of Change</u>	<u>2010 Estimated</u>	<u>Pay Costs</u>	<u>Program Changes</u>	<u>2011 Estimated</u>
Packers & Stockyards Program.....	\$23,692,000	\$235,000	\$1,800,000	\$25,727,000
Grain Regulatory Program.....	<u>18,272,000</u>	<u>193,000</u>	<u>0</u>	<u>18,465,000</u>
Total Available.....	<u><u>41,964,000</u></u>	<u><u>428,000</u></u>	<u><u>1,800,000</u></u>	<u><u>44,192,000</u></u>

Project Statement

(On basis of appropriation)

	<u>2009 Actual</u>		<u>2010 Estimated</u>		Increase or Decrease		<u>2011 Estimated</u>	
	<u>Amount</u>	<u>Staff Years</u>	<u>Amount</u>	<u>Staff Years</u>			<u>Amount</u>	<u>Staff Years</u>
1. Packers and Stockyards	\$22,376,548	141	\$23,692,000	148	\$2,035,000	(1)	\$25,727,000	164
2. Grain Regulatory	17,701,778	125	18,272,000	125	193,000	(2)	18,465,000	125
Unobligated Balance	<u>263,674</u>	<u>--</u>	<u>--</u>	<u>--</u>	<u>--</u>		<u>--</u>	<u>--</u>
Total Available	<u><u>40,342,000</u></u>	<u>266</u>	<u>41,964,000</u>	<u>273</u>	<u>2,228,000</u>		<u>44,192,000</u>	<u>289</u>

## GRAIN INSPECTION, PACKERS AND STOCKYARDS ADMINISTRATION

## JUSTIFICATION OF INCREASES AND DECREASES

- (1) An increase of \$2,035,000 and 16 staff years (\$23,692,000 available in 2010) for the Packers and Stockyards Program consisting of:

- (a) A total increase of \$428,000 for pay costs which consists of \$235,000 for Packers and Stockyards program activities.

This increase will enable GIPSA to meet its objectives of facilitating the marketing of livestock, poultry, meat, cereals, oilseeds, and related agricultural products and promote fair and competitive trading practices for the overall benefit of consumers and American agriculture, consistent with the priorities established by the Secretary of Agriculture. This critically important increase is needed to support and maintain current staffing levels to meet the current and projected increased demand to ensure a fair, open, and competitive marketing environment for livestock, meat, and poultry; and to promote and protect the integrity of the domestic and global marketing of U.S. grain for the benefit of American agriculture. Approximately 75 percent of GIPSA's budget is in support of personnel compensation, leaving very little flexibility to absorb pay cost increases. Consequently, absorbing this increase may result in staff reductions, thereby adversely affecting the ability of GIPSA to carry out its mission.

- (b) An increase of \$1,800,000 and 16 staff years to strengthen GIPSA's enforcement of the Packers and Stockyards Act.

This increase will strengthen direct enforcement of the Packers and Stockyards (P&S) Act and promote greater voluntary compliance with the Act through an expanded GIPSA presence within the industry. The P&S Act provides an important safety net for livestock producers and poultry growers in rural America by prohibiting unfair, deceptive, and fraudulent practices in the livestock, poultry, and meatpacking industries. As such, compliance with the Act is a measure of the level of protection provided in the marketplace. The Agency strives to increase industry compliance to maximize the level of protection afforded to all market participants. GIPSA conducts routine and ongoing regulatory inspections and audits to assess whether subject entities are operating in compliance with the Act, and conducts investigations of potential P&S Act violations identified by either industry complaints or previous GIPSA regulatory inspections. All activities are carried out by professionals including economists, attorneys, accountants, and agricultural marketing professionals. Economic conditions will result in a continued increase in complaints and, therefore, an increased need for GIPSA protection under the Packers and Stockyards Act. Additional resident agents and investigative attorneys are needed to expand investigative, regulatory, and audit activities in order to raise industry compliance levels from the 80 percent level attained in 2008; enhance market protections for buyers and sellers of livestock, poultry, and meat; and enforce the amendments in the 2008 Farm Bill. Funding will also provide for attorneys to provide additional legal support for enforcement of the P&S Act.

The target rate of 85 percent for 2011 reflects the improvement in GIPSA's ability to provide oversight in the industry given the additional funding. GIPSA's current inspection process is based on random samples and entities deemed at risk, and GIPSA seeks to establish onsite inspections for all regulated entities on a regular cycle. The additional funding and staff will enable GIPSA to establish a system for every regulated entity to undergo inspection and compliance reviews on a routine basis. In addition, the sixteen new positions will allow GIPSA to perform approximately 500 additional inspection and compliance reviews per year. GIPSA regulates approximately 4,685 livestock dealers, 1,326 livestock markets, 1,392 posted stockyards (which may also be a dealer and/or a market), 339 bonded packers, 727 swine contractors, and 126 live poultry dealers. At the FY 2008 compliance level of 80 percent, this increase in enforcement actions would detect



approximately 84 firms in violation of the P&S Act. The funding would allow prevention of the violation and provide protection to approximately 7,000 additional livestock sellers and poultry growers. This funding supports stronger enforcement of the P&S Act and, in the process, contributes to the economic viability of small and mid-size farms.

- (2) A net increase of \$193,000 in the Grain Regulatory Program (\$18,272,000 available in 2010) consisting of:
- (a) A total increase of \$428,000 for pay costs which consists of \$193,000 for Grain Regulatory program activities.

This increase will enable GIPSA to meet its objectives of facilitating the marketing of livestock, poultry, meat, cereals, oilseeds, and related agricultural products and promote fair and competitive trading practices for the overall benefit of consumers and American agriculture, consistent with the priorities established by the Secretary of Agriculture. This critically important increase is needed to support and maintain current staffing levels to meet the current and projected increased demand to ensure a fair, open, and competitive marketing environment for livestock, meat, and poultry; and to promote and protect the integrity of the domestic and global marketing of U.S. grain for the benefit of American agriculture. Approximately 75 percent of GIPSA's budget is in support of personnel compensation, leaving very little flexibility to absorb pay cost increases. Consequently, absorbing this increase may result in staff reductions, thereby adversely affecting the ability of GIPSA to carry out its mission.

GRAIN INSPECTION, PACKERS AND STOCKYARDS ADMINISTRATION

JUSTIFICATION OF INCREASES AND DECREASES

Salaries and Expenses

USER FEES - PROPOSED LEGISLATION

Explanation of Proposed Legislation:

This proposal would recover approximately \$29 million.

The Grain Inspection, Packers and Stockyards Administration (GIPSA) develops, reviews, and maintains official U.S. grain standards that describe the grain characteristics in terms of physical, sanitary, and intrinsic value at the time of inspection. These standards provide a common language for use by producers, sellers, and buyers of U.S. grain. This proposal would initiate user fees for this service. Because these standards benefit and are used almost solely by the grain trading industry, and because they facilitate the orderly marketing of grain products, it is industry that should bear the costs. Fees would be charged to those who benefit from such services such as those who receive, ship, store, or process grain. Estimated receipts in FY 2011 would be \$4 million.

This proposal would also amend the Packers and Stockyards Act (P&S Act) to provide authority to collect license fees to cover the cost of the program. Beneficiaries of the program and activities administered under the provisions of the P&S Act are livestock market agencies, dealers, stockyards, packers, live poultry dealers, and swine contractors. These market participants benefit because they are protected from the adverse effects of anticompetitive and unfair business practices in meat and poultry marketing and distribution. Estimated receipts in FY 2011 would be \$25 million.

## GRAIN INSPECTION, PACKERS AND STOCKYARDS ADMINISTRATION

Salaries and ExpensesGeographic Breakdown of Obligations and Staff Years  
2009 Actual and Estimated 2010 and 2011

	2009		2010		2011	
	Amount	Staff Years	Amount	Staff Years	Amount	Staff Years
Arkansas.....	\$86,179	1	\$88,298	1	\$90,000	1
Colorado.....	5,755,749	50	6,005,304	51	6,651,000	56
District of Columbia.....	18,238,869	60	19,263,430	64	19,358,000	64
Georgia.....	4,421,645	37	4,638,390	38	5,378,000	44
Idaho.....	98,461	2	100,883	2	104,000	2
Iowa.....	4,748,243	40	4,973,020	41	5,604,000	46
Louisiana.....	907,777	7	930,103	7	940,000	7
Missouri.....	4,963,582	60	5,085,655	60	5,175,000	60
North Dakota.....	68,289	1	69,968	1	71,000	1
Ohio.....	159,027	2	162,938	2	166,000	2
Oregon.....	285,820	3	292,849	3	297,000	3
Texas.....	207,813	2	212,924	2	216,000	2
Washington.....	136,872	1	140,238	1	142,000	1
Subtotal, Available or						
Estimate.....	40,078,326	266	41,964,000	273	44,192,000	289
Unobligated balance.....	263,674	--	--	--	--	--
Total, Available or Estimate.....	40,342,000	266	41,964,000	273	44,192,000	289

## GRAIN INSPECTION, PACKERS AND STOCKYARDS ADMINISTRATION

Salaries and ExpensesCLASSIFICATION BY OBJECTS2009 Actual and Estimated 2010 and 2011

	<u>2009</u>	<u>2010</u>	<u>2011</u>
Personnel Compensation:			
Washington, DC.....	\$7,198,432	\$7,566,489	\$7,670,000
Field.....	<u>16,796,340</u>	<u>17,655,142</u>	<u>19,125,000</u>
Total personnel			
11    compensation.....	23,994,772	25,221,631	26,795,000
12    Personnel benefits.....	6,247,783	6,737,544	7,129,000
13    Benefits for former personnel.....	<u>28,595</u>	<u>0</u>	<u>0</u>
Total personnel compensation & benefits.....	30,271,150	31,959,175	33,924,000
Other Objects:			
21    Travel and trans. of persons.....	1,773,739	1,853,676	1,974,000
22    Transportation of things.....	46,797	62,188	66,000
23.2    Rental payments to others.....	78,054	78,707	79,000
23.3    Communications, utilities			
and misc. charges.....	872,131	879,426	896,000
24    Printing and reproduction.....	76,178	96,815	100,000
25.2    Other services.....	4,803,670	4,878,767	4,947,000
26    Supplies and materials.....	498,659	509,830	548,000
31    Equipment.....	1,621,354	1,645,416	1,658,000
42    Insurance claims and Indemnities.....	36,514	0	0
43    Interests.....	<u>80</u>	<u>0</u>	<u>0</u>
Total other objects.....	<u>9,807,176</u>	<u>10,004,825</u>	<u>10,268,000</u>
Total direct obligations.....	<u>40,078,326</u>	<u>41,964,000</u>	<u>44,192,000</u>
<u>Position Data:</u>			
Average Salary, ES positions.....	\$150,000	\$154,000	\$157,000
Average Salary, GS positions.....	72,000	74,000	76,000
Average Grade, GS positions.....	12.2	12.2	12.2

GRAIN INSPECTION, PACKERS AND STOCKYARDS ADMINISTRATION  
SALARIES AND EXPENSES  
STATUS OF PROGRAM

**Federal Grain Inspection Service**

GIPSA's Federal Grain Inspection Service (FGIS) establishes quality standards for grains, oilseeds, pulses, and legumes; provides impartial inspection and weighing services through a network of Federal, State, and private entities; and monitors marketing practices to enforce compliance with the U.S. Grain Standards Act, as amended (USGSA) and Agricultural Marketing Act (AMA) of 1946. Through these activities, FGIS facilitates the marketing of grain, oilseeds, and related products.

Current Activities:

Providing the Market with Terms and Methods for Quality Assessments

*Wheat Quality Factors*

Farinograph tests are widely used to determine certain quality factors, but GIPSA studies have shown significant differences in test results among commercial laboratories which leads to confusion in markets. To identify ways for improving standardization of the Farinograph method, GIPSA initiated a multiple laboratory collaboration in FY 2008. In FY 2009, collaborative studies identified the addition of water and data processing algorithms as additional sources of significant Farinograph method variation. GIPSA plans to continue this effort in FY 2010 and participate in additional studies of method improvements that are under development.

*Biotechnology*

The Biotechnology Proficiency Program, GIPSA's internationally recognized proficiency program, now includes 160 participating organizations, more than 80 percent of which are from outside the United States. Since most biotechnology challenges come from international trade, the high percentage of foreign participants illustrates the global reach of this program and its contribution to GIPSA's efforts to facilitate trade. The program enables organizations to identify transgenic events of grain for the purpose of improving accuracy and precision.

In recent years, there have been instances of inadvertent releases of unapproved transgenic events into the U.S. grain handling system. GIPSA assists government and independent laboratories by performing impartial third-party verification of their methods for both qualitative and quantitative detection of transgenic events in biotechnology-derived crops. GIPSA's involvement in responding to inadvertent releases facilitates harmonization of sampling plans and international testing for biotechnology-derived grains and oilseeds.

GIPSA continues to collaborate with international organizations such as the Codex Alimentarius Commission, Canadian Grains Commission, and the National Institute for Standards and Technology to harmonize testing technologies for biotechnology-derived grains and oilseeds. In FY 2009, several of these efforts resulted in publications in peer-reviewed scientific journals including the *Journal of Agricultural Food Chemistry* and *Food Control*.

*Mycotoxin and Biotechnology Test Kit Approvals*

The grain industry needs fast, reliable tests to assess the presence of biotechnology-derived grains and oilseeds and mycotoxins in grain. To ensure that rapid and reliable tests are commercially available, GIPSA provides a performance verification and approval program for such rapid tests. In FY 2009, GIPSA evaluated a total of 18 rapid test kits for 4 different mycotoxins. More specifically, GIPSA evaluated 8 qualitative and 10 quantitative rapid test kits, approving all of the qualitative tests and 7 of the quantitative tests (Table 1).

TABLE 1: FY 2009 Mycotoxins Rapid Test Kit Evaluation Summary

Mycotoxin	Quantitative Methods		Qualitative Methods	
	<i>Evaluated</i>	<i>Approved</i>	<i>Evaluated</i>	<i>Approved</i>
Aflatoxins	6	5	10	10
Deoxynivalenol	0	0	0	0
Ochratoxin	1	1	0	0
Fumonisin	1	1	0	0
Totals	8	7	10	10

GIPSA also evaluated eight biotechnology rapid tests. All eight of the tests met established performance criteria and received Certificates of Performance.

#### *Sorghum Standards*

GIPSA met with a cross-section of the sorghum industry to achieve a common understanding as to the acceptability of various odors and levels of intensity in grain sorghum. Based on recommendations from the Grain Inspection Advisory Committee, FGIS engaged a sensory expert from Kansas State University to develop reference material for inspectors in the official system to assist in determining the acceptability of grain sorghum odors. These materials will further enhance the consistency of determinations that are of paramount importance to handlers and exports and are scheduled to be completed in late 2010.

#### *Pea Standards*

GIPSA amended the U.S. Standards for Whole Dry Peas and Split Peas to facilitate the marketing of new winter pea varieties and ensure the purity of class for “Whole Dry Peas” and “Split Peas.” The general definitions were amended, and specific definitions were amended for five classes. FGIS worked with stakeholders to ensure minimal market interruption, and that these changes were implemented prior to the beginning of harvest season.

#### *Pesticide Residue Method Development and Testing*

GIPSA analyzed 650 rice samples in FY 2009 as part of the agency’s participation in the Pesticide Data Program, a cooperative effort of the USDA, U.S. Environmental Protection Agency and 10 participating states. In addition, GIPSA developed and validated a new methodology for analyzing wheat. GIPSA also adapted three analytical testing methods to determine the presence of pesticides in soybeans. In FY 2010 GIPSA will develop methods to determine the presence of pesticides in oats and analyze approximately 300 oat samples.

#### *Post Harvest Grain Quality Surveys*

In FY 2009, GIPSA continued to work with stakeholders to capture inspection data for grain entering the value chain. Through a multi-year initiative, GIPSA is collecting samples at the first-point-of-sale when producers deliver grain to the elevator during harvest. These samples will provide a baseline of quality for grading factors such as damage and foreign material content, plus non grade factors such as foreign material composition, moisture, oil, and protein. Since 2006, GIPSA has collected over 5,000 samples representing 29 soybean or sorghum-producing States. The knowledge gathered from this project will allow GIPSA to better evaluate the potential impact on the marketplace of proposed changes to the grain standards.

#### *Reference Methods*

Objective grain quality assessments depend on reliable, well standardized measurement methods. GIPSA maintains reference methods for protein, moisture, oil, fatty acid composition, and mycotoxins. These methods are used to maintain the accuracy of testing in the official inspection system and to support development of new rapid field methods.

In FY 2008, GIPSA also established and demonstrated the utility of a High Performance Liquid Chromatography (HPLC) reference method. The HPLC reference method serves as an objective method of

identifying wheat varieties that will augment the official inspection system's current subjective analyses. After evaluating Ultra-High Performance Liquid Chromatography (UPLC) in FY 2008 for potential use as the aflatoxin reference method, GIPSA initiated a two-year effort in FY 2009 to convert the aflatoxin reference method to UPLC. This new method has the potential of providing more rapid and accurate analyses.

#### *Visual Reference Material*

GIPSA's Visual Reference Image (VRI) system serves as the primary tool to ensure standardization of official subjective (visual) grain inspection services. VRIs ensure consistent and uniform application of grading lines and illustrate types of damage in conjunction with written descriptions. In FY 2009, GIPSA distributed new general appearance prints for lentils and rice, updated and replaced all of the current corn and soybean VRI using new technology and techniques that significantly improve image quality.

#### *Standardizing Commercial Grain Inspection Equipment*

In FY 2009, GIPSA continued to participate in an ongoing cooperative effort with the National Conference on Weights and Measures (NCWM) and the National Institute for Standards and Technology (NIST) to standardize commercial inspection equipment by serving as the sole evaluation laboratory for grain inspection equipment under the NCWM's National Type Evaluation Program (NTEP). GIPSA collected grain moisture meter calibration data for five instrument models as part of NTEP's ongoing calibration program. Calibrations developed in this program provide traceability back to the official GIPSA moisture program and air oven reference method, and can be used in the majority of moisture meters used in commercial transactions throughout the United States. The NTEP laboratory completed an evaluation for a grain moisture meter and near-infrared model that was previously in the on-going calibration program for a different U.S. distributor.

#### *Registration*

The International Organization for Standardization (ISO) represents the national standards institutes and organizations of over 100 countries, including the American National Standards Institute. The American Society of Quality, the European Standards Institute, and the Japanese Industrial Standards Committee are a few of the major quality organizations that have endorsed ISO Standards, which are becoming the de facto standards across industries throughout the world. In FY 2009, GIPSA maintained IS 9000:2000 registration for its primary reference methods (protein, oil, and moisture) and its Pesticide Data Program to enhance international credibility and acceptance of its results.

#### Protecting the Integrity of U.S. Grain and Related Markets

##### *Alleged Violations*

At the beginning of FY 2009, 20 cases involving alleged violations of the USGSA and the AMA were pending further GIPSA action. During FY 2009, 11 cases were opened, including cases involving foreign quality complaints, deceptive loading, and failure to follow procedures and maintain records. GIPSA issued a combination of sanction, warning, cautionary, and informational letters to close 19 cases originating from prior years and 3 cases from FY 2009.

##### *Delegation and Designation Program*

GIPSA oversees 51 official agencies that are designated under the USGSA to provide voluntary official inspection and/or weighing services for domestic trade. In addition, GIPSA supervises four States that are also delegated to provide mandatory official inspection and weighing services at export locations. One additional State is delegated but not designated. Delegations are permanent unless GIPSA or the State terminates the agreement. Designations must be renewed every 3 years. In FY 2009, GIPSA renewed 17 agencies for full 3-year terms after reviewing their requests. In addition, GIPSA designated a new minority-owned company to provide official services in Texas.

*Compliance Reviews*

Compliance reviews inspect GIPSA's grain inspection and weighing field operation, which includes Federal, State, and private entities. GIPSA conducted onsite compliance reviews of 1 GIPSA office, 7 State agriculture departments, and 16 private agencies in FY 2009. Customer satisfaction and procedural compliance were evaluated. GIPSA found no instances of service delivery discrimination and determined that the overall integrity of the national inspection system is intact.

*Complaints*

GIPSA administers a formal process for investigating grain quality and weight discrepancies. When an importer of US grains reports a quality or weight discrepancy, GIPSA initiates an investigation to determine the validity of the discrepancy. GIPSA analyzes samples retained on file from the original inspection and samples submitted from destination to evaluate whether the discrepancy was due to inspector or instrument error, or to differences in samples, procedures, or an actual change in quality from the time of the original inspection. The process verifies whether the original inspection and weighing service provided at the time of loading was correct, based on all available information. GIPSA then issues a report outlining its findings and provides suggestions to avoid similar discrepancies in the future.

In 2009, GIPSA received 15 quality complaints and no weight complaints from importers on grains inspected under the USGSA (Table 2). These complaints involved 606,356 metric tons, or about 0.6 percent by weight, of the total amount of grain exported during the year. This compares to 7 quality and 1 weight complaints received in FY 2008, representing about 0.09 percent of grain exports by weight.

TABLE 2: Summary of Complaints Reported by Importers on Inspection and Weighing, FY 2009

Complainant	Grain	No. of Complaints	Nature of Complaint
<b>Asia</b>			
China	Soybeans	1	Treated soybeans
Japan	Soybeans	1	Treated soybeans
	Wheat	1	Foreign material
Malaysia	Corn	1	Damage
South Korea	Corn	5	Broken corn, foreign material Heat damage, damage
Vietnam	Soybeans	1	Foreign material
<b>Central/South America</b>			
Guatemala	Wheat	1	Odor
Venezuela	Wheat	1	Wheat of other classes
<b>North America</b>			
Canada	Corn	1	Damage, heat damage, broken corn and foreign material
Mexico	Corn	1	Broken corn and foreign material
	Wheat	1	Heat damage
<b>TOTAL</b>		<b>15</b>	

*Quality Management Program*

As part of its strategic plan, FGIS is integrating the principles of modern quality management into the official system. The Quality Management Program (QMP) adopted by FGIS requires that all private and State agencies, as well as FGIS field offices that provide official inspection and weighing services, establish a program based on the principles of quality control, quality assurance, and quality improvement as a key component in the way they deliver official services. FGIS expects that implementation of the QMP



will further enhance delivery of official services to the grain, feed, and processing industries while supporting Agency efforts to manage costs and staff resources. All official service providers and FGIS field offices will be operating under an approved QMP during 2010.

*Collaboration with USAID and USDA's Farm Service Agency*

In 2009, USDA's Farm Service Agency (FSA) sought GIPSA's expertise in evaluating a quality complaint lodged by a U.S. Agency for International Development (USAID) food aid recipient. Haitians who received a shipment of corn soy blend reported that children became sick after eating the product. Corn soy blend is a processed commodity composed of cornmeal, soyflour, soybean oil, minerals and vitamins used in governmental export food assistance programs. The product has multiple uses but is mainly used as a weaning food in maternal child health programs, and to a lesser extent in emergency and other types of programs. FGIS did not provide sampling or inspection services prior to loading. At FSA's request, FGIS sent an inspector to Haiti to obtain representative samples to be analyzed. Our review of the product found that the product was fit for human consumption.

FGISonline

In FY 2009 GIPSA continued to modernize the business functions of its grain program with implementation of the state-of-the-art FGISonline system. Activities included developing core applications, including programs to capture inspection, testing, and weighing information at the point of origin; capture and manage technical testing information; automate the licensing process, and expand the quality and assurance and control capabilities. Ultimately, this system will provide instantaneous access to official inspection certificates for customers around the world.

International Projects

GIPSA coordinated with the North American Export Grain Association (NAEGA), U.S. Soybean Export council, USDA/Foreign Agricultural Service (FAS), and USDA/Animal and Plant Health Inspection Service to develop a soybean monitoring project with Chinese officials in FY 2009. The ongoing project is intended to address China's quality concerns and build positive relationships between USDA and Chinese inspection and quarantine officials and ultimately increase demand for U.S. soybeans.

Working closely with FAS, NAEGA, and other industry stakeholders, GIPSA assisted in successfully eliminating Japan's testing and monitoring for the low-level presence of unapproved biotech events in grain such as StarLink. This successfully ends testing requirements for StarLink corn on a global basis.

GIPSA collaborated with FAS, APHIS, the U.S. Trade Representative, and USA Rice Federation to ensure open markets for U.S. rice in Colombia and Mexico. Colombian plant health officials refused entry of U.S. rough rice due to the presence of a prohibited pest. Based on statements and documentation of GIPSA, Colombian officials later allowed the shipments to discharge after receiving letterhead statements that GIPSA witnessed the application of methyl bromide in the U.S. In Mexico, after Mexican officials claimed some shipments contained a prohibited pest, rice exports to Mexico resumed after importers agreed to fumigate U.S. rice entering Mexico and ship directly to processing facilities.

Since 2002, GIPSA has annually stationed an employee in Asia for a 1-3 month detail to work with Asian customers and their governments. During FY 2009, a GIPSA officer traveled to China, Japan, South Korea, the Philippines, and Taiwan to conduct seminars and meet with individuals and groups involved in the grain and milling industry in Asia. The GIPSA officer was able to address misunderstandings regarding contract specification and grain grading, and also clarified how FGIS determines contrasting classes of wheat. Through these meetings, the buyers gained a better understanding of how to purchase U.S. wheat to meet their needs and expectations.

### Outreach

#### *Education*

GIPSA provides educational materials and grading aids to GIPSA customers through various outlets, at industry meetings and trade shows, and to the public through the GIPSA website. In FY 2009 GIPSA launched a new distance education course on the U.S. grain inspection system in collaboration with the Grain Elevator and Processing Society (GEAPS) and Kansas State University (KSU). The course, titled “Federal Grain Inspection Service Grain Inspection Orientation,” was offered by GEAPS/KSU in June 2009 to 32 students. GIPSA is also using the course material in internal training as well as in outreach and education programs. GIPSA also developed the following courses: Sale Day Market Review, FGISonline Official License Program, Corn Grading, Basic Statistics, and Act and Regulations.

#### *Delegation Meetings*

GIPSA personnel frequently provide information to foreign delegations on the U.S. grain marketing system, the national inspection and weighing system, U.S. grain standards, and GIPSA’s mission. These briefings foster a better understanding of the U.S. grain marketing system and the official U.S. grain standards and the national inspection system, and enhance purchasers’ confidence in U.S. grain. During FY 2009, GIPSA personnel met with 38 teams from 23 countries.

#### *Overseas Assistance*

In FY 2009, GIPSA responded to customers’ needs for technical expertise in foreign markets. Exporters, importers, and end users of U.S. grains and oilseeds, as well as other USDA agencies, USDA Cooperator organizations, and other governments, occasionally ask for GIPSA personnel to provide expertise. These activities include participating in grain marketing and grain grading seminars, meeting with foreign governments and grain industry representatives to resolve grain quality and weight discrepancies, helping other countries develop domestic grain and commodity standards and marketing infrastructures, assisting importers with quality specifications, and training local inspectors in U.S. inspection methods and procedures.

#### *Codex Involvement*

The Codex Committee on Methods of Analysis and Sampling (CCMAS) met on March 9-13, 2009, in Balatonalmadi, Hungary. The Committee serves as a coordinating body for Codex with other international groups working in methods of analysis and sampling and quality assurance systems for laboratories. A GIPSA representative serves as an alternate delegate to the Committee, providing technical expertise as the United States continues to be an active participant and very influential with respect to documents and proposals brought before the CCMAS.

### **Packers and Stockyards Program**

GIPSA’s Packers and Stockyards Program (P&SP) is responsible for administering the Packers and Stockyards Act (P&S Act). The Act prohibits unfair, deceptive, and fraudulent practices by market agencies, dealers, packers, swine contractors, and live poultry dealers in the livestock, poultry, and certain meatpacking industries as well as affording livestock sellers and poultry growers specified financial protections. Packers, live poultry dealers, and swine contractors are also prohibited from engaging in specific anti-competitive practices. P&SP conducts two broad types of activities—regulatory and investigative—in its administration and enforcement of the P&S Act. Program activities cover two general areas: Business Practices and Financial Protection. Business Practices are further divided into Competition and Trade Practices.

Regulatory and investigative actions frequently find that entities are in compliance with the Act. When violations are discovered, GIPSA assesses fines for admitted violations or pursues administrative or civil litigation with the USDA Office of the General Counsel before a USDA Administrative Law Judge or through the Department of Justice. Litigation may also result in a fine

against the offending entity (Table 1) or a suspension of a registration required under the P&S Act to conduct regulated activity.

TABLE 3: Penalties Levied for P&S Act Violations, 2005-2009

Type Judgment	2005	2006	2007	2008	2009
Stipulations (\$)	NA	NA	9,750	23,275	30,775
Administrative penalties (\$)	114,300	196,350	404,150	657,770	364,700
DOJ Civil penalties (\$)	NA	NA	36,500	51,240	57,130

GIPSA maintains a toll-free telephone number and a dedicated e-mail address to allow members of the grain, livestock, and poultry industries and the public to report complaints and share concerns. Individuals or firms with complaints about the industries are encouraged to call the appropriate regional office to discuss their concerns, anonymously if desired. GIPSA responds to all of these complaints and sources of information. GIPSA may also initiate investigations independently, for example, as a result of information obtained from monitoring industry behavior.

#### Current Activities:

##### Business Practices

The Business Practices units include lawyers, economists, and marketing specialists who focus on competition and trade practice issues. This unit is supported by resident agents that are remotely located throughout the country. The business practices unit conducts regulatory reviews and investigations to identify alleged unfair trade practices at auction markets, livestock dealers and order buyers, slaughtering packers, live poultry dealers, and meat dealers and brokers, and monitors market and firm prices for indications of anti-competitive firm behavior.

##### *Competition and Trade Practices*

Since 2006, GIPSA's regional Trade Practices and Competition Unit offices have been merged to bring the units under a single supervisor and more closely reflect that trade practice and competition violations form a continuum requiring the knowledge and skills of the marketing specialist, economists, and legal specialist to properly monitor and enforce the Act.

Anticompetitive behavior includes attempted restriction of competition, failure to compete, buyers acting in concert to purchase livestock, apportionment of territory, price discrimination, price manipulation, and predatory pricing. GIPSA examines the existence of unfair or deceptive trade practices in violation of the P&S Act by conducting procurement compliance reviews of subject firms. The reviews cover pricing methods; payment practices; weighing of livestock, carcasses, and poultry; carcass grades used for payment; and accountings issued to sellers.

To obtain compliance with the P&S Act, GIPSA undertakes investigative and regulatory activities. These are identified as either competitive or trade practices activities. Investigations are enforcement actions conducted when there is reason to believe a violation of the P&S Act is occurring. Investigations at a firm-level may be a follow-up to previously identified violations, in response to industry-driven complaints, and in response to possible violations found while conducting regulatory activities on a business's premises, or through other monitoring activities. Investigations may be conducted as rapid response actions to prevent irreparable harm to the regulated industries. In FY 2009, GIPSA closed 16 competition investigations, 691 financial investigations, and 279 trade practice investigations, for a total of 986 investigations closed.

Regulatory activities, on the other hand, are activities undertaken to determine whether or not a regulated entity is complying with the P&S Act. Two examples of regulatory activities are scale inspections and audits of custodial bank accounts maintained by market agencies for seller proceeds. In FY 2009, 589 scale checks were conducted, finding 69 violations; and 383 custodial account audits resulted in account corrections worth approximately \$2.6 million. Regulatory activities also include market level monitoring, which is generally conducted using data that are available in the public domain. Examples include, but are

not limited to, monitoring fed cattle and hog prices, and structural changes in the livestock, meat, and poultry industries. Monitoring activities have led to firm-level investigations.

#### *Fed Cattle Price Monitoring*

In 2003, following the first case of Bovine Spongiform Encephalopathy in the U.S., GIPSA reviewed its fed-cattle market monitoring practices and revised its econometric model used since the mid-1990's to detect price differences in regional fed cattle markets. The statistical model relies on publicly reported price data to assess regional price differences. The model is run weekly, and any price outlier that is not caused by certain statistical factors triggers a regulatory review. If the review does not determine that the price outlier was caused by certain external factors or readily observable market conditions, then a formal investigation is initiated to determine the cause of the price outlier. The formal investigation involves a deeper examination of the price data and cattle characteristics, and interviews with buyers, sellers, and other market participants.

In 2009, the fed cattle price monitoring program initiated 25 regulatory activities, and 3 indicated cause for investigation. All three investigations initiated in 2009 are ongoing with field interviews being conducted. Although no competition violations have been identified, the ongoing program allows GIPSA to actively monitor market prices on a weekly basis and timely initiate regulatory reviews and investigations, if necessary, of observed market price anomalies.

#### *Additional Monitoring Program Development*

The fed cattle monitoring is an example of a monitoring program that looks first at market price behavior and then secondarily at firm pricing behavior. In FY 2008, GIPSA began developing a complementary competition monitoring program based on cost-price ratios. This program will evaluate cost and price data of firms to help detect any potential anticompetitive activities. GIPSA collaborated with USDA's Economic Research Service (ERS) in FY 2009 to utilize their expertise and allow ERS to objectively assess the monitoring concept. Based on suggestions provided by ERS, GIPSA pilot tested the program in 2009 with cattle packers and will be extending the program in 2010 into the poultry and hog industries.

#### *Committed Procurement Review and Audit*

Each year, GIPSA economists obtain fed cattle and hog procurement data and any new or modified contracts and agreements for the previous calendar year from the five largest beef and hog packers. Economists classify, review, and tabulate the individual transactions data, and calculate the reliance of the top packers on committed procurement methods. GIPSA economists review the contracts and, if necessary, discuss them with the packers to determine the nature of the agreements as they relate to the committed procurement categories of interest. In FY 2009, GIPSA found it unnecessary to meet with the beef packing companies as their transaction data reconciled with their annual reports. However, GIPSA did meet with all four hog packers. These meetings resulted in a clear, mutual understanding of the reporting of requirements for committed procurement and more reliable reporting and calculation of the packers' reliance on committed procurement methods.

#### Financial Protection

The financial units have the primary responsibility to enforce the financial provisions of the P&S Act and regulations. These enforcement actions assist in maintaining the financial integrity and stability of the livestock, poultry, and meatpacking industries. Enforcement is carried out through review of annual and special reports, and by on-site financial compliance reviews and investigations. When GIPSA determines a potentially serious financial situation exists that may cause imminent and irreparable harm to livestock producers, rapid response teams are deployed to investigate the problem. Under the P&S Act, regulated businesses must be solvent (current assets must exceed current liabilities). GIPSA requires special reports from firms whose annual reports disclose insolvencies. In addition, on-site financial investigations are conducted to follow up on reported insolvencies or other financial issues.

### *Trusts and Bonds*

The P&S Act also establishes a statutory trust on certain assets of packers and live poultry dealers for the benefit of unpaid cash sellers of livestock, and unpaid cash sellers or contract growers of live poultry grown for slaughter. When a trust claim is filed, P&SP analyzes the claim to determine if the claim appears to be timely and supported by adequate documentation. Additionally, all market agencies, dealers, and slaughtering packers purchasing over \$500,000 of livestock annually are required to file and maintain bonds or bond equivalents for the protection of livestock sellers. When a seller fails to receive payment on a transaction, they must file a bond claim within 60 days of the transaction. Both trustees and bond sureties receive GIPSA's analysis as a courtesy. GIPSA does not pay trust or bond claims, and cannot compel payments.

### *Poultry Contract Compliance Review Process*

In FY 2009, GIPSA added a formal poultry contract compliance review as a component of GIPSA's industry compliance rate performance measure. Contract reviews, in addition to the other component reviews that are conducted based on a random sample, may be initiated based on industry intelligence or complaints. GIPSA developed a sub-process module to be followed when agents conduct reviews. Contracts are reviewed for consistency and adherence to regulations and a randomly chosen payment sample data is reviewed for accuracy and completeness. If discrepancies are found in the firm's documentation, an investigation will be opened. Otherwise, exit interviews are provided indicating that the firm is found to be free of violation.

### *Failures and Restitution*

Bonding requirements usually do not cover the entire loss sustained when a firm fails financially. A large packer's failure (one failed in 2002, owing more than \$15 million), may impact auction markets and dealers from whom it purchased livestock and failed to pay. Since 1998, there has been an average of 13 dealer failures per year. Percent restitution to livestock sellers from all sources has averaged 18 percent per year. In FY 2009, the percent of restitution to livestock sellers from all sources was 24 percent, with 11 percent originating from bonds (Table 4).

TABLE 4: Total Dealer Financial Failures and Restitution, 1998-2009

Fiscal Year	No	Owed for Livestock (\$)	Restitution From Bonds (\$)	Restitution From Other Sources (\$)	%
1998	10	685,726	133,345	61,435	28
1999	10	1,684,128	291,261	38,024	20
2000	11	1,464,733	324,979	91,800	28
2001	11	2,841,305	317,444	24,786	12
2002	11	3,271,962	618,764	60,000	21
2003	5	1,805,600	112,281	28,923	8
2004	3	770,860	95,000	0	12
2005	1	2,993,990	0	0	0
2006	13	3,018,131	134,936	26,856	5
2007	31	6,941,930	257,634	549,303	12
2008	20	2,054,647	843,682	301,916	56
2009	25	3,134,145	348,018	411,133	24

Auction markets may be especially vulnerable to a domino-like effect from dealer failures since many dealers purchase livestock from auction markets. Since 1998, an average of 6 auction markets per year have failed, with consignors receiving an average restitution of 53 percent. In FY 2009, the average auction restitution received was 27 percent, with almost all the restitution originating from bonds (Table 3).

TABLE 5: Total Auction Market Financial Failures and Restitution, 1998-2009

Fiscal Year	No	Owed Consignors (\$)	Restitution From Bonds (\$)	Restitution From Other Sources (\$)	%
1998	2	225,001	66,131	0	29
1999	3	862,666	60,000	424,589	56
2000	4	399,023	100,193	186,113	71
2001	4	1,104,985	133,745	519,265	59
2002	6	1,082,034	378,610	0	35
2003	6	1,187,979	211,464	138,848	30
2004	2	145,772	60,000	16,649	53
2005	3	336,006	85,000	201,840	78
2006	9	979,543	267,174	19,380	29
2007	11	511,704	37,252	155,890	38
2008	6	602,100	237,734	352,111	98
2009	7	981,189	261,498	1,365	27

#### *Packers and Stockyards Automated System*

As a result of the Business Process Re-engineering effort initiated by GIPSA in FY 2006 to develop workflow process descriptions for all major activities, GIPSA standardized business practices across the agency and then focused on automating the information management system. GIPSA merged three database systems that stored critical data into the Packers and Stockyards Automated System (PSAS), an integrated system that eliminates multiple data entry and ensures accuracy for reporting and management. Implementation of PSAS began in Summer 2008 and full software functionality, regional enforcement analysis, and policy analysis was completed in FY 2009 to fully implement the system.

#### *Centralized Reporting Unit*

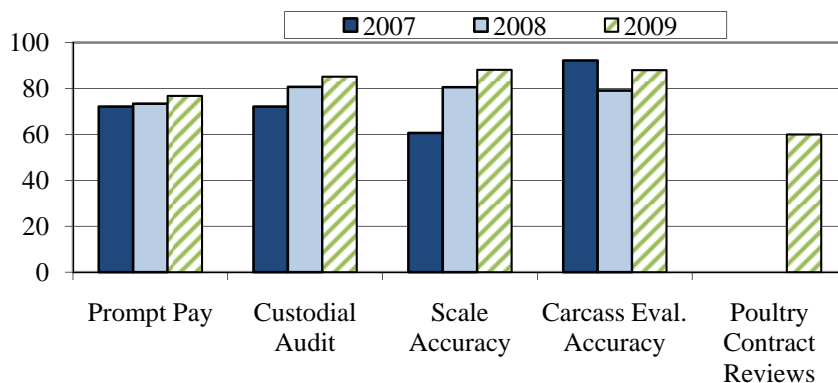
GIPSA formed a centralized reporting unit (CRU) in FY 2008 to receive and handle annual reports submitted by entities that are regulated under the P&S Act. Fully functional in FY 2009, the CRU increases the efficiency in processing annual reports and enhances the agency's ability to take enforcement action against firms that fail to complete or submit an annual report and firms that submit incomplete forms in a timely fashion. Annual reports are submitted by firms to determine if custodial accounts are short, set appropriate bond amounts, and monitor trade practices. A stepped-up effort to enforce filing requirements, which are prosecuted under Section 6 of the Federal Trade Commission Act incorporated in the P&S Act, has resulted in the Department of Justice issuing civil penalties of \$51,240 and \$57,130 in FY 2008 and FY 2009, respectively.

#### Performance and Efficiency Measurement

Efficiency at achieving industry compliance is measured through the number of days it takes to complete the investigative phase of investigations. GIPSA has worked to reduce the number of days in the investigate phase of investigations to 114 in FY 2009 versus 165 days in FY 2006. In FY 2009, 1,439 investigations of regulated firms were opened while 1,059 cases opened from 2009 and prior years were resolved and closed.

In FY 2009, the program's performance and efficiency measures remained constant despite the downturn in the economy. GIPSA measures the overall performance of the Packers and Stockyards program by annually monitoring the regulated entities' compliance with the P&S Act. The industry compliance measure is based on random samples similar to manufacturing quality control programs. A composite index of five audit and inspections activities comprise the compliance rate—custodial account audits, prompt pay audits, packing scale inspections, dealer and market scale inspections, and poultry contract reviews, with only one year of poultry review data (Figure 1). Data available for three years show an increase in compliance in the four areas in FY 2009 as compared to FY 2008. New this year, the poultry review measure scored a relatively low rate of 60 percent, maintaining the estimated aggregate industry compliance level at the FY 2008 level of 80 percent.

FIGURE 1: Performance Measure Component Compliance Rates, 2007 – 2009



In previous years, aggregate index insolvency audits were included as part of the aggregate compliance measure. GIPSA removed these audits from the index in FY 2009 because the firms selected for the review were selected based on targeted information and chosen to prevent harm to livestock sellers rather than based on random samples. Keeping insolvency audits in the index would have resulted in an aggregated measure of compliance at 85 percent.

#### Industry Assessment

As required by the P&S Act, GIPSA issued a report on the Assessment of the Livestock and Poultry Industries in March 2009 for the 2008 fiscal year. GIPSA has also completed the assessment for FY 2009, which will be delivered to Congress in early 2010. This assessment is based on analyses conducted by GIPSA on data originating from annual reports filed by regulated firms and aids in the monitoring of the industry's financial and business practices.

Data for 2009 suggest a decrease in the number of firms regulated by GIPSA compared to 2008. The number of entities subject to the P&S Act will likely continue to trend downward. As the business conditions at the end of 2008 worsened and continued into 2009, industry contractions have led to greater concentration rates. The four largest firms' share of the total value of livestock purchases, i.e., aggregate industry concentration, increased slightly from 2007 to around 68 percent. Patterns of concentration in the purchase of different types of livestock, however, have exhibited different trends. Four-firm concentration by volume of slaughter in steer and heifer slaughter and boxed beef production have declined compared to being relatively stable in recent years, although boxed beef concentration declined in 2007 and 2008.

#### *Industry Concentrations*

GIPSA found in its 2009 analyses that cattle slaughter concentration has increased from 1997 to 2007 due to the acquisition of several smaller plants by larger operations and remained steady for 2008. Concentration in poultry slaughter has trended upward since 2000. Hog slaughter has remained fairly constant, after a sharp increase in 2003. Concentration in sheep slaughter declined from 1998 through 2004 as the largest plants in the industry decreased slaughter at a higher rate than total industry slaughter decline, but has since increased. Due to the small total slaughter of the sheep industry, relatively moderate volume adjustments among any of the largest four firms result in relatively large changes in the percent of industry total slaughter accounted for by those firms.

#### *Pricing methods*

Pricing methods are most often divided into two categories: live-weight or carcass pricing methods. With live-weight purchasing of livestock, the price is quoted and the final payment is determined based on the weight of the live animal. In a "carcass-based" purchase, the price is quoted and the final payment is determined based on the hot weight of each animal's carcass after it has been slaughtered and eviscerated. Trends in marketing practices of packers vary by species. For example, carcass-based purchases of cattle exhibited a strong upward trend from 1998 through 2002 before declining in 2004 and again increasing in

2007 and 2008. Data for 2009 will be forthcoming in the annual reports the industry submits to GIPSA later in 2010. Carcass-based purchases have become the predominant method used for hogs purchased for slaughter and the proportion of hogs purchased on a carcass basis will likely stabilize at current levels. In comparison, the volume of sheep purchased on a carcass basis peaked at over 1.9 million head in 2001 but has declined to around 1 million head in recent years.

#### *Procurement*

The largest beef packers' use of committed procurement methods increased in 2008 at approximately the same rate as 2006 and 2007, but packer feeding and use of marketing agreements only slightly increased compared to the 2007 levels. Forward contracts and packer feeding each continue to represent relatively small portions of total cattle procurement. The most common methods for hog procurement are production and marketing contracts. In production contracts, contractors provide hogs, retain ownership, and contract with growers to care for and raise hogs according to contract standards. In marketing contracts, producers who own the hogs contract with a packer to sell them under agreed-upon terms. Procurement methods used in the purchase of sheep and lambs for slaughter are similar to those used for other species and include purchase in spot markets, use of marketing agreements, use of various other forms of advance sales contracts, and packer feeding. As with other species, the various procurement methods used for lambs continue to evolve but GIPSA has not observed major changes in the methods in recent years and expects this stability to continue. Live poultry production is coordinated through production (grow-out) contracts, company-owned farms, and marketing agreements.

#### *Industry Concerns*

GIPSA has general concerns regarding the structure, performance, and conduct of the livestock, meat, and poultry industries, particularly as they relate to contracting in these industries. As announced in November 2009, GIPSA will be participating with the Department of Justice in workshops throughout 2010 to further explore the issues.

The workshops will be the first joint Department of Justice and U.S. Department of Agriculture workshops and will focus on competition and regulatory issues in the agriculture industry. GIPSA hopes to foster learning with respect to the appropriate legal and economic analyses of these issues, as well as promote dialogue and listen to and learn from parties with experience in the agriculture sector.

The day-long workshops are to be held in Alabama, Colorado, Iowa, Washington, D.C., and Wisconsin beginning in March 2010, with the last workshop taking place in December 2010. The public will have an opportunity to ask questions and provide comments at each workshop, which may also feature keynote speakers, general expert panels, and break-out sessions that will address more narrowly-focused issues. GIPSA is encouraging attendance and participation of the public throughout the series of workshops. The workshops will involve farmers, ranchers, processors, consumer groups, agribusinesses, government officials, and academics. This collection of stakeholders will create a forum for discussion and will ensure various industry perspectives. The Department of Justice and USDA also asked for comments in advance of the workshops which were collected through December 2009.



GRAIN INSPECTION, PACKERS AND STOCKYARDS ADMINISTRATION

Limitation on Inspection and Weighing Services Expenses:

Not to exceed [\$42,463,000] \$45,041,000 (from fees collected) shall be obligated during the current fiscal year for inspection and weighing services: Provided, That if grain export activities require additional supervision and oversight, or other uncontrollable factors occur, this limitation may be exceeded by up to 10 percent with notification to the Committees on Appropriations of both Houses of Congress.

Justification of Increase

- (1) An increase in the obligation limitation on fees collected from inspection and weighing services of \$2,578,000.

This increase will allow GIPSA to fully support the Federal Grain Inspection Services' inspection and weighing program. This program provides both mandatory and voluntary services, including a variety of inspection, weighing, and related services on grains, pulses, oilseeds, and processed and graded commodities. These services extend to both domestic and international markets, with services being mandatory for exports. These mandatory services include official weighing of the majority of grain exported from the U.S. and of intercompany barge grain received at export port locations; official inspection of the majority of grain exported from the U.S.; and testing of all corn exported from the U.S. for aflatoxin prior to shipment, unless the contract stipulates testing is not required. In order to support these mandatory services and the voluntary domestic services, and continue to meet the demand of the domestic and foreign grain and related commodity markets, the limitation on inspection and weighing services expenses that is currently in place needs to be adjusted. GIPSA has operated under the current limitation of \$42,463,000 since FY 2002. However, due to mandatory annual increases in pay cost and inflation compounded over the last several years, an increase in the limitation is required. This critically important increase in the limitation is needed to support and maintain current staffing levels to meet the demand and ensure continuation of accurate and consistent inspection and weighing services. In FY 2009, GIPSA approached the current limitation and may exceed the limitation in FY 2010 (which will be preceded by Congressional notification). While GIPSA has and continues to seek out cost saving opportunities and implement appropriate changes to reduce its costs, GIPSA also regularly reviews its user-fee financed programs to determine if the revenues generated are adequate to cover program costs. Since the current limitation has been in place in 2002, GIPSA has implemented fee increases for various services provided, increasing the amount of revenue generated by its user fee programs to cover increases in pay cost. A corresponding increase in the current limitation on inspection and weighing expenses is required to make use of these funds and be able to obligate sufficient funds to finance the program. The increase in limitation will enable GIPSA to continue to support the inspection and weighing program and provide the services that are both mandatory and voluntary to the industry.

## GRAIN INSPECTION, PACKERS AND STOCKYARDS ADMINISTRATION

LIMITATION ON INSPECTION AND WEIGHING SERVICES

Estimate, 2010.....	\$42,463,000
Budget Estimate, 2011.....	<u>45,041,000</u>
Increase in Appropriation.....	<u><u>2,578,000</u></u>

Project Statement  
(On basis of appropriation)

	<u>2009 Actual</u>		<u>2010 Estimated</u>		Increase or Decrease	<u>2011 Estimated</u>	
	<u>Amount</u>	<u>Staff Years</u>	<u>Amount</u>	<u>Staff Years</u>		<u>Amount</u>	<u>Staff Years</u>
Inspection and Weighing Activities	\$41,728,561	411	\$42,463,000	411	\$2,578,000	\$45,041,000	411
Nonexpenditure transfer	-695,244	--	--	--	--	--	--
Unobligated Balance Start of Period	-11,048,263	--	-10,940,764	--	--	-10,940,764	--
Unobligated Balance End of Period	9,948,137	--	10,940,764	--	--	10,940,764	--
Collections	<u>39,933,191</u>	411	<u>42,463,000</u>	411	<u>2,578,000</u>	<u>45,041,000</u>	<u>411</u>

## GRAIN INSPECTION, PACKERS AND STOCKYARDS ADMINISTRATION

Inspection and Weighing ServicesGeographic Breakdown of Obligations and Staff Years  
2009 Actual and Estimated 2010 and 2011

	2009		2010		2011	
	Amount	Staff Years	Amount	Staff Years	Amount	Staff Years
Arkansas.....	\$1,879,837	23	\$1,912,923	23	\$2,029,000	23
District of Columbia.....	10,026,410	69	10,202,879	69	10,822,000	69
Idaho.....	246,330	3	250,666	3	266,000	3
Iowa.....	305,507	3	310,884	3	330,000	3
Louisiana.....	16,071,964	167	16,354,835	167	17,348,000	167
Missouri.....	199,629	2	203,143	2	215,000	2
North Dakota.....	1,108,499	11	1,128,009	11	1,196,000	11
Ohio.....	1,580,459	16	1,608,276	16	1,706,000	16
Oregon.....	3,928,709	45	3,997,856	45	4,241,000	45
Texas.....	6,294,069	71	6,404,847	71	6,794,000	71
Washington.....	87,148	1	88,682	1	94,000	1
Total, Available or Estimate.....	41,728,561	411	42,463,000	411	45,041,000	411

GRAIN INSPECTION, PACKERS AND STOCKYARDS ADMINISTRATION  
INSPECTION AND WEIGHING SERVICES  
STATUS OF PROGRAM

### Federal Grain Inspection Service

#### Providing Official Grain Inspection and Weighing Services

The U.S. Grain Standards Act, as amended (USGSA) requires generally that export grain be inspected and weighed; prohibits deceptive practices and criminal acts with respect to the inspection and weighing of grain; and provides penalties for violations.

Services under the USGSA are performed on a fee basis for both export and domestic grain shipments. The USGSA requires generally that export grain be inspected and weighed; prohibits deceptive practices and criminal acts with respect to the inspection and weighing of grain; and provides penalties for violations. Official inspection and weighing of U.S. grain in domestic commerce are performed upon request. Table 1 displays an overview of GIPSA's inspection and weighing program activity.

TABLE 1: Inspection and Weighing Program Overview, Fiscal Years 2007-2009

Item	Fiscal Years		
	2007	2008	2009
<i>Inspection Program</i>			
Quantity of Grain Produced <sup>1</sup> (Mmt) <sup>2</sup>	477.5	474.7	478.4
Quantity of Standardized Grain Officially Inspected (Mmt)			
Domestic	178.2	181.3	168.3
Export by FGIS	76.9	81.4	71.4
by Delegated States	26.6	32.2	24.9
by Designated Agencies	<u>12.5</u>	<u>14.8</u>	<u>10.0</u>
Total	294.2	309.7	274.6
Quantity of Non-Standardized Grain Officially Inspected (Mmt)			
Domestic	0.0	0.0	0.0
Export by FGIS	1.0	0.1	0.0
by Delegated States	0.0	0.0	0.0
by Designated Agencies	<u>1.5</u>	<u>0.1</u>	<u>0.0</u>
Total	2.5	0.2	0.0
<i>Weighing Program</i>			
Official Weight Certificates Issued			
FGIS	74,083	88,109	69,163
Delegated States/Official Agencies	243,816	340,434	226,53
Exported Grain Weighed (Mmt)			
FGIS	76.7	81.1	70.3
Delegated States	<u>26.5</u>	<u>31.9</u>	<u>24.8</u>
Total	103.2	113.0	95.1

<sup>1</sup> Source: USDA World Agricultural Supply and Demand Estimates. This figure includes production of wheat, corn, sorghum, barley, oats, and soybeans.

<sup>2</sup> Million metric tons.

Current Activities:

*Container Inspections*

The U.S. grain industry has experienced a significant increase in the demand for grain exported in containers. Inspection of containerized cargo has increased from 1.0 percent of total grain officially inspected at export (metric tons) in 2005 to 4.2 percent of total grain officially inspected at export (metric tons) in 2008.

FGIS is challenged to keep up with the growing number of container loading facilities. In 2002, eight facilities exported grain by container. Currently, there are over 160 loading facilities, with the majority in proximity to the railroad hub in Chicago. FGIS is developing outreach material for current and potential buyers of U.S. grain to improve their understanding of the sampling, inspection, and certification process for grain exported in containers.

In order to accommodate the containerized grain trade, FGIS has remained flexible with regard to sampling containerized lots and certification procedures. However, to ensure that FGIS regulations and service operations effectively address current and evolving market conditions, FGIS will conduct a comprehensive review of the policies and procedures governing official inspection and weighing services for grain exported in containers during 2010.

## GRAIN INSPECTION, PACKERS AND STOCKYARDS ADMINISTRATION

## Summary of Budget and Performance

## Statement of Department Goals and Objectives

The Grain Inspection, Packers and Stockyards Administration (GIPSA) was established on October 20, 1994, under the authority of the Agriculture Reorganization Act of 1994 (P.L. 103-354), to administer the programs and functions of Federal Grain Inspection Service (FGIS) and the Packers and Stockyards Program (P&SP). The mission of the agency is to facilitate the marketing of livestock, poultry, meat, cereals, oilseeds, and related agricultural products, and to promote fair and competitive trading practices for the overall benefit of consumers and American agriculture.

The GIPSA has two strategic goals and five strategic objectives that contribute to one of the Secretary's Strategic Goals.

USDA Strategic Goal	Agency Strategic Goal	Agency Objectives	Programs that Contribute	Key Outcome
<b>USDA Strategic Goal:</b> Assist rural communities to create prosperity so they are self-sustaining, repopulating, and economically thriving.	<b>Agency Goal 1:</b> Promote fair and competitive marketing of livestock, meat, and poultry.	<u>Objective 1.1:</u> Increase level of compliance through preventive regulatory actions.  <u>Objective 1.2:</u> Attain compliance through investigation and enforcement.	Packers and Stockyards Program	<u>Key Outcome 1:</u> Maintain a fair and competitive marketplace for buying and selling U.S. livestock, meat and poultry.
	<b>Agency Goal 2:</b> Facilitate the marketing of U.S. grain and related agricultural products.	<u>Objective 2.1:</u> Provide the market with terms and methods for quality assessments.  <u>Objective 2.2:</u> Protect the integrity of U.S. grain and related markets.  <u>Objective 2.3:</u> Provide official grain inspection and weighing services.	Federal Grain Inspection Service	<u>Key Outcome 2:</u> Provide buyers and sellers of U.S. grain with an efficient, accurate, and reliable means to determine the value of the product being sold or purchased, thereby facilitating the marketing of America's grain domestically and around the world.

**Key Outcome 1:** Maintain a fair and competitive marketplace for buying and selling U.S. livestock, meat and poultry.

Long-term Performance Measure: Percent of compliance with the Packers and Stockyards Act (P&S Act).

Selected Past Accomplishments Toward Achievement of the Key Outcome:

- Packers and Stockyards Program – After establishing the baseline of 75 percent industry compliance with the P&S Act in FY 2007, industry compliance remained at the FY 2008 level of 80 percent in FY 2009.
- Efficiency, measured by the decline in average numbers of days comprising an investigation, dropped to 77 days in FY 2008 from an average of 165 days in FY 2006.

Selected Accomplishments Expected at the FY 2011 Proposed Resource Level:

- In FY 2011, GIPSA expects to increase industry compliance with the P&S Act and reach a level of 85 percent compliance, up 10 percent compared to the baseline of 75 percent for FY 2007. This is an increase of 5 percent over the compliance of 80 percent in FY 2009. The Agency expects to achieve this by increasing preventive regulatory actions and investigation and enforcement activities. We do not expect the compliance rate to increase significantly for 2009, due to the adverse economic conditions in the economy as a whole especially in the last quarter of 2008 and the first quarter of 2009, which negatively affected the financial health of the livestock and poultry industries. The industry's anticipated recovery may result in compliance rates improving slightly less in the coming 2 years than previously projected.
- In FY 2011, GIPSA will implement directives, policies, regulations, and perform industry analysis that effectively and efficiently keep pace with the changing livestock, meat, and poultry industries. This will include prioritizing and developing regulations and policies; and improving the reporting on regulated industry.
- GIPSA will improve organizational efficiency and effectiveness of its Packers and Stockyards Program by effectively aligning organizational structure with process. To attain this goal, GIPSA will ensure an appropriately skilled workforce to address attrition and changing business needs; implement optimal staffing to improve program delivery and results; improve the organizational climate; automate operations; and improve the public perception of P&SP.

Efficiency Measure: Decrease the number of days needed to investigate and resolve potential violations within P&SP by 5 percent yearly.

**Key Outcome 2:** Provide buyers and sellers of U.S. grain with an efficient, accurate, and reliable means to determine the value of the product being sold or purchased, thereby facilitating the marketing of America's grain domestically and around the world.

Long-term Performance Measure: Percent of market-identified quality attributes for which GIPSA has provided standardization.

Selected Past Accomplishments Toward Achievement of the Key Outcome:

- In FY 2009, GIPSA played a significant role in maintaining the level of U.S. grain exports traded without disruptions or reported quality discrepancies at 99 percent. This indicates the accuracy and reliability of GIPSA's grain quality measurements and the success of our efforts to ensure that all of America's international trading partners understand how grain quality is determined.

Selected Accomplishments Expected at the FY 2011 Proposed Resource Level:

- In FY 2011, GIPSA expects to provide standardization for 89 percent of all market-identified quality attributes. During FY 2011, GIPSA anticipates continued success in facilitating the marketing of U.S. grain and related agricultural products through the establishment of standards for quality

assessments, regulation of handling practices, and management of a network of Federal, State, and private laboratories that provide impartial, user fee funded official inspection and weighing services. GIPSA will provide the market with quality assessment terms and methods that reflect the evolving market needs, including providing both direct product testing, and documentation of specific production or processing methods, to help the market differentiate its diverse products. In response to domestic and international customer requests, GIPSA is working toward providing a method to verify rice enrichment in rice and developing and validating methods to expand heavy metal assessments and to detect the mycotoxins, T-2 and HT-2 in grain in 2011. To protect the integrity of U.S. grain and related markets, GIPSA will maintain regulatory requirements for grain handling, marketing, and performance of laboratories authorized to provide official grain quality assessments that promote fair marketing. The agency also will continue to provide official grain inspection and weighing services to American agriculture through the official national system, a network of Federal, State, and private service providers.

Efficiency Measure: Decrease the GIPSA oversight costs per official agency inspection to a level of \$0.44/inspection.

Strategic Goal Funding Matrix  
(On basis of appropriation)

	2009 Actual		2010 Estimated		Increase or Decrease	2011 Estimated	
	<u>Amount</u>	<u>Staff Years</u>	<u>Amount</u>	<u>Staff Years</u>		<u>Amount</u>	<u>Staff Years</u>
Packers and Stockyards	\$22,376,548	141	\$23,692,000	148	\$2,035,000	\$25,727,000	164
Grain Regulatory	17,701,778	125	18,272,000	125	193,000	18,465,000	125
Total, Goal	40,078,326	266	41,964,000	273	2,228,000	44,192,000	289
Total, Available	40,078,326	266	41,964,000	273	2,228,000	44,192,000	289



## GRAIN INSPECTION, PACKERS AND STOCKYARDS ADMINISTRATION

## Summary of Budget and Performance

## Key Performance Outcomes and Measures

**Goal:** USDA will assist rural communities to create prosperity so they are self-sustaining, repopulating, and economically thriving.

Key Outcomes:

- Outcome 1: A fair and competitive marketplace for buying and selling U.S. livestock, meat and poultry.
- Outcome 2: An efficient, accurate, and reliable means to determine the value of the product being sold or purchased and facilitation of the marketing of America's grain domestically and around the world.

Key Performance Measures:

- Measure 1: Percent of industry compliance with the Packers and Stockyards Act
- Measure 2: Percent of market-identified quality attributes needed for trading for which GIPSA has provided standardization.

Key Performance Targets:

<b>Performance Measures</b>	<b>2006 Actual</b>	<b>2007 Actual</b>	<b>2008 Actual</b>	<b>2009 Actual</b>	<b>2010 Target</b>	<b>2011 Target</b>
Percent of industry compliance with the Packers and Stockyards Act						
a. Percent	N/A	75	80	80	83	85
b. Dollars (in millions)	\$19.9	\$20.2	\$20.9	\$22.4	\$23.7	\$25.8
Percent of market-identified quality attributes needed for trading for which GIPSA has provided standardization.						
a. Percent	94.0	95.7	97.8	98.6	87.0 <sup>1</sup>	89.0 <sup>1</sup>
b. Dollars (in millions)	\$11.5	\$10.8	\$11.0	\$11.0	\$11.1	\$11.1

<sup>1</sup> In FY 2009, the GIPSA Market Opportunities Team evaluated its master list of market needs. This evaluation was done in response to feedback from domestic and international customers and in cooperation with producers and trade associations representing all segments of the grain and related commodity markets. As a result of the new list, the team recalculated the targeted levels of performance for fiscal years 2010 and 2011.

## GRAIN INSPECTION, PACKERS AND STOCKYARDS ADMINISTRATION

<b>Summary of Budget and Performance</b>				
<b>Full Cost by Department Strategic Goal</b>				
<b>Department Strategic Goal: USDA will assist rural communities to create prosperity so they are self-sustaining, repopulating, and economically thriving</b>				
<b>PROGRAM</b>	<b>PROGRAM ITEMS</b>	<b>2009 AMOUNT (\$000)</b>	<b>2010 AMOUNT (\$000)</b>	<b>2011 AMOUNT (\$000)</b>
<b>Packers and Stockyards Program</b>				
	Packers and Stockyards Program	19,651	20,806	22,593
	Indirect Costs	2,726	2,886	3,134
	<b>Total Costs</b>	<b>22,377</b>	<b>23,692</b>	<b>25,727</b>
	<i>FTEs</i>	<i>141</i>	<i>148</i>	<i>164</i>
	Performance measure: Rate of industry compliance with the P&S Act (%)	80	83	85
<b>Grain Regulatory Program</b>				
	Grain Regulatory Program	14,862	15,341	15,503
	Indirect Costs	2,840	2,931	2,962
	<b>Total Costs</b>	<b>17,702</b>	<b>18,272</b>	<b>18,465</b>
	<i>FTEs</i>	<i>125</i>	<i>125</i>	<i>125</i>
	Performance measure: Percent of market-identified quality attributes needed for trading for which GIPSA has provided standardization (%)	99	87	89
<b>Total for Department Strategic Goal</b>				
	<b>Total Costs for Department Strategic Goal</b>	<b>40,079</b>	<b>41,964</b>	<b>44,192</b>
	<i>FTEs</i>	<i>266</i>	<i>273</i>	<i>289</i>